



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

**EAST CAMBRIDGESHIRE DISTRICT COUNCIL
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE
JANUARY 2022**

Introduction

- 1.1 The Internal Audit service for East Cambridgeshire District Council provides 210 days to deliver the 2021/22 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit Committee to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting and an overview of the performance of the audit team.

Performance

2.1 Delivery of the 2021/22 Audit Plan

At the time of reporting, fieldwork is either complete or underway in relation to 71% of the planned work.

Progress on individual assignments is shown in Table 1.

2.2 Are clients satisfied with the quality of the Internal Audit assignments?

To date, one survey response has been received in relation to feedback on completed assignments for the 2021/22 audit plan and results are summarised in Table 4.

2.3 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

Since the last Committee meeting, two audit reports have been finalised. To date, the audit work has not highlighted any issues or weaknesses which would impact upon the overall Internal Audit opinion. The key findings from the reports were as follows:

Bank reconciliations

The maintenance of accurate and complete bank reconciliations is vital to the Council's overall financial control framework. The effective operation of controls to maintain accurate records is pivotal in ensuring that the Council's financial statements are produced promptly and accurately. The bank reconciliation process ensures that transactions appearing on the Council's accounting records are compared with bank statements allowing differences to be appropriately managed. Generally, these will be timing issues such as cash in transit i.e. monies banked within an accounting period not yet credited to the bank account.

Internal Audit review confirmed that there are written operational procedure notes covering the bank reconciliation process and these provide assurance over the resilience of the process should there be a change in staffing or loss of key personnel through absence. Testing of the accuracy of the completed bank reconciliations for the months of July 2021 and October 2021 confirmed that the figures included in the reconciliations could be matched to supporting records. Testing included the verification of monies in transit at the end of each month.

Completed reconciliations are held electronically and should be signed off and dated by both the preparer and reviewer. A review of the completed reconciliations for the period April 2021 to October 2021 identified that some reconciliations had not been fully signed off by the preparer and/or reviewer. Reconciliations should be signed off fully to provide assurance that they have completed and reviewed promptly.

Based on the work performed during the audit, assurance opinions are given as follows:

Assurance Opinion		
Control Environment	Substantial	●
Compliance	Good	●
Organisational Impact	Minor	●

Counter Fraud support - ethical governance arrangements

As a local authority East Cambridgeshire District Council has a responsibility to act in an ethical way by demonstrating good governance practice and upholding high standards of conduct and behaviour by officers, Members, partners and providers.

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable. The Constitution sets out how the Council ensures that it is doing the right things, in the right way, for the community it serves, in a timely, inclusive, open, honest and accurate manner. The Constitution is supplemented by a number of key documents including the Code of Corporate Governance which has been developed in accordance with and is consistent with the Delivering Good Governance in Local Government framework, which builds on the seven Principles for the Conduct of Individuals in Public Life. There are a wide variety of policies and codes of practice which ensure a consistent approach across the Council. It was identified that a number of these policies and codes of practice need to be updated and some were duplicated in different versions on the internet / intranet.

There is an induction programme in place for both new staff and Members which is supplemented by additional training and development. The induction programme for new staff includes a corporate induction which covers a number of areas including fraud awareness, freedom of information and data protection. The Council's decision making process is set out in the Constitution and covers the terms of reference for committees, the scheme of delegation and the roles of senior officers including the Chief Executive, Democratic Services Manager, Legal Services Manager (Monitoring Officer) and Finance Manager (S151 Officer).

A review of a sample of committee agendas and minutes confirmed that in each case there was a standing item on the agenda regarding declarations of interest and the minutes of the meetings recorded any declarations made.

A Register of Members Interests is maintained by the Monitoring Officer in accordance with Section 29 of the Localism Act 2011 and it is a legal obligation for Members to complete the Register and ensure that it is accurate and complete. The Register is published on the Council's website. Sample testing confirmed consistent completion and publication of information.

Based on the work performed during the audit, the assurance opinions are given as follows:

Assurance Opinion		
Control Environment	Substantial	●
Compliance	Good	●
Organisational Impact	Minor	●

The following audit was finalised in July 2021 and related to the Internal Audit Plan from 2020/21 but was not reported to the committee in full as part of the 2020/21 annual report. As such, the summary below is provided for information:

Procurement compliance 2020/21

The Council's Contract Procedure Rules are designed to ensure probity and value for money when procuring goods, works or services that meet the needs of local residents and comply with legal and regulatory requirements in respect of competition and transparency.

Testing of a sample of ten contracts selected from both the contracts register and published spend over £500 has confirmed that contracts had been awarded in an appropriate manner consistent with the requirements of Contract Procedure Rules but in three cases there was not a documented contract in place between the Council and the supplier. To comply with the Local Government Transparency Code, the Council publishes all expenditure over £500 on its website together with a link to the latest version of the contracts register. Testing of five payments included in the expenditure reports with a value over £5k identified that four of the payments tested (80%) were not included in the contracts register and therefore the Council was not compliant with the requirements of the Local Government Transparency Code.

There have been issues and shortcomings in procurement documentation and compliance previously reported by Internal Audit. As a response, a report presented to the Finance & Assets Committee by the Director Commercial outlined specific action officers were taking to ensure future compliance. Each of the procurements tested pre-dated the report to the Committee. Whilst testing has again identified areas of non-compliance in this report, no recommendations have been made in respect of compliance to allow time for the actions included in the report to Finance & Assets Committee to be completed. Further resource has been included in the Internal Audit plan for the financial year 2021/22 to continue to follow up on actions from previous audit work and provide assurance that Contract Procedure Rules are being complied with.

Based on the work performed during the audit, the assurance opinions were given as follows:

Assurance Opinion		
Control Environment	Substantial	●
Compliance	Satisfactory	●
Organisational Impact	Moderate	●

2.4 **Implementation of audit recommendations by officers**

Where an Internal Audit review identifies any areas of weakness or non-compliance with the control environment, recommendations are made and an action plan agreed with management, with timeframes for implementation.

Since the last Committee meeting, nine agreed actions have been implemented by officers. An overview is provided in Table 2.

At the time of reporting, there are five actions which remain overdue for implementation. Of these, there is one action categorised as 'Important' which is more than three months overdue, further details are provided in Table 3.

2.5 **Audit Plan 2022/23**

Work on development of the updated audit plan for 2022/23 is underway. In setting the annual Audit Plan, the Public Sector Internal Audit Standards require:

- a) The audit plan should be developed taking into account the organisation's risk management framework and based upon a risk assessment process undertaken with input from senior management and the Audit Committee;
- b) The audit plan should be reviewed and approved by an effective and engaged Audit Committee; and
- c) The Head of Internal Audit should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations.

In order to ensure that the Audit Plan for 2022/23 address the Council's key risks and adds value to the organisation, it is proposed that the Head of Internal Audit will identify and prioritise the areas for coverage by:

- Reviewing the Council's Risk Register and Corporate Plan;
- Analysing coverage of Internal Audit reviews over the past four years and the assurance opinions provided following each review, to identify any assurance gaps or areas where follow up work would be of value;
- Identifying any other sources of assurance for each of the Council's key risks, which may reduce the added value of an Internal Audit review and where work could be aligned with other assurance providers;
- Identifying any areas of the Audit Universe (a list of potential areas for audit review across the Council) which have not been subject to Internal Audit review during the past four years;
- Consultation with the Audit Committee; and
- Meeting members of Corporate Management Team to discuss key risks and emerging risk areas for the year ahead and any areas where Internal Audit support would be beneficial either in an assurance or consultancy role.

All potential audit coverage identified will be risk assessed and prioritised for inclusion in the Audit Plan, in consultation with senior management, based on risk, other sources of assurance available and potential value added from a review.

The resulting draft Internal Audit Plan will then be presented to the Audit Committee in March 2022 for review and formal approval.

Members of the Committee are invited to highlight any risk areas where internal audit coverage may be of value in the year ahead. These can be raised either during the committee meeting or directly to the Head of Internal Audit by the end of January 2022.

Table 1 - Progress against 2021/22 Internal Audit Plan

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Governance & Counter Fraud							
Counter Fraud support / promotion	Q4	Complete		Consultancy			Report issued on Ethical Governance – see section 2.3
National Fraud Initiative	Q3	As required	See notes above	Consultancy			
Risk Management support	Q1 – Q4	In progress		Consultancy			
Annual Governance Statement support	Q1	Complete	Not applicable	Consultancy			
Procurement compliance	Q4	Not started					
Key Financial Systems							
Bank Reconciliation	Q3	Final report issued	<i>To review the design of, and compliance with, key controls within the Council’s financial systems, working on a cyclical basis. Providing assurance over the controls to prevent and detect fraud and error.</i>	Substantial	Good	Minor	See section 2.3
Creditors	Q4	Planning					
Debtors	Q4	Planning					
Payroll	Q4	Not started					

					Assurance Opinion				
Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	Comments
Treasury Management		Q3	Fieldwork underway						
Fixed Assets		Q3	Fieldwork underway						
Budgetary Control		Q3	Fieldwork underway						
Financial Management Code (consultancy)		Q4	Planning						
Key policy compliance									
Staff recruitment checks		Q1	Final report issued		<i>To provide assurance that appropriate processes are in place to ensure that the recruitment process is clearly documented, including appropriate checks to prevent and detect recruitment fraud.</i>	Substantial	Substantial	Minor	
Risk based audits									
Covid-19 recovery		Q3	Fieldwork underway						
ICT outages – lessons learnt review		Q3	Fieldwork underway						
Environment and climate change strategy		Q2	Draft report issued						

<i>Assignment</i>		<i>Planned start</i>	<i>Status</i>	<i>Assurance sought</i>	<i>Assurance Opinion</i>			<i>Comments</i>
					<i>Control Environment</i>	<i>Compliance</i>	<i>Org impact</i>	
Development control		Q2	Final report issued	<i>Assurance that the Council operates in accordance with key legislation, monitors and progresses issues to an appropriate conclusion and demonstrates transparency in terms of processes, communication with the public and decisions reached.</i>	Substantial	Substantial	Minor	
Disabled facilities grants		Q2	Verification completed	<i>Verification completed and sent to Cambridgeshire County Council</i>	Not applicable			

Table 2 - Implementation of Audit Recommendations

	'Essential' priority recommendations		'Important' priority recommendations		'Standard' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	3	100%	6	74%	-	-	9	64%
Actions overdue by less than three months	-	-	1	13%	2	67%	3	22%
Actions overdue by more than three months	-	-	1	13%	1	33%	2	14%
Totals	3	100%	8	100%	3	100%	14	100%

Table 3 – Actions overdue more than three months (Essential or Important priority)

Audit plan	Audit title	Agreed action and context	Priority	Responsible officer	Date for implementation	Officer update / revised date
2020/21	Contract extensions	<p>Review and update of the Contracts Register.</p> <p>Services should identify all contracts, including contract extensions, over £5,000 which are not yet on the Contracts Register and provide the required details to Legal Services.</p>	Essential	Finance Manager	31/10/2020	<p>The Finance team have conducted a review of spend reports to identify potential suppliers who are not included on the Contracts Register.</p> <p>The legal team are working with the relevant service leads to establish any gaps in contract register entries.</p> <p>This will be followed up again as part of internal audit testing in quarter 4.</p>

Table 4: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. There has been one survey response received during the year to date.

Responses	Outstanding	Good	Satisfactory	Poor
Design of assignment	1	-	-	-
Communication during assignment	1	-	-	-
Quality of reporting	1	-	-	-
Quality of recommendations	-	-	-	-
Total	3	-	-	-

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Compliance Assurances			
Level		Control environment assurance	Compliance assurance
Substantial		There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
Good		There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory		There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited		There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No		There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level		Definition
Major		The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate		The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor		The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Limitations and Responsibilities

Limitations inherent to the internal auditor's work

LGSS Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Finance and Assets Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.